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INFO RUEHZK/ECOWAS COLLECTIVE PRIORITY
RUEHUJA/AMEMBASSY ABUJA PRIORITY 7055
RUEHLO/AMEMBASSY LONDON PRIORITY 0617
RUEHFR/AMEMBASSY PARIS PRIORITY 0398
RUEHRO/AMEMBASSY ROME PRIORITY 1030
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000432

SIPDIS

SIPDIS

DEPT PASS TO EX-IM KVRANICH AND BUBAMADU
TREASURY FOR ASEVERENS AND SRENENDER
USDOC FOR 3317/ITA/OA/KBURRESS
PASS OPIC FOR ZHAN AND MSTUCKART
PASS TDA FOR NCABOT
PASS USTR FOR ASST USTR SLISER

E.O. 12958: DECL: 03/23/2016
TAGS: EFIN ECON EINV PGOV PREL NI
SUBJECT: NIGERIA:BANK UPDATE AND THE 2007 ELECTIONS

REF: A. LAGOS 207
¶B. LAGOS 34

Classified By: Acting Political/Economic Section Chief Shannon Ross
for reasons 1.4(b) and (d).

Summary

¶1. (C) The Central Bank of Nigeria (CBN) began post-integration verification of assets on all 25 newly emerged bank groups on February 22. Insiders expect the verification process to reveal some of the banks did not actually meet the CBN's naira 25 billion (USD 192 million) capitalization requirement. However, to prevent a scare in the banking sector, the CBN was unlikely to revoke any new licenses. Top bank executives said the increase in the number of settlement banks from six to ten would have no major impact on the banking environment. While most banks face post-merger integration woes, the CBN announced plans for a "second" phase in bank reform. As campaigning for the 2007 elections heats up, insiders said major debtors, including some of President Obasanjo's most vociferous political opponents, would continue to be placed under the financial microscope of the Economic and Financial Crimes Commission (EFCC). End summary.

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Post-Integration Verification of Assets? What For?
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¶2. (C) The CBN began post-integration verification of assets on the 25 newly emerged banks on February 22, but has not completed the exercise. Insiders question the rationale behind conducting a "post-integration verification of assets" of banks when the CBN already had done a similar exercise in late 2005. IBTC Chartered Bank Executive Director Sola David-Borha said the process was a "waste" of time, and opined the CBN had either not done a proper inspection earlier, or was worried about "illegal" money returning into the banking system. Platinum-Habib Bank Deputy Managing Director Ignatius Ukpaka states the exercise was not neutral, but had political overtones. He believed the exercise was meant for the government to target political opponents, trace their assets, and send the results to the Economic and

Financial Crimes Commission (EFCC). Diamond Bank Executive Director Uzoma Dozie concurred, and said the EFCC would chase down any opponent of President Obasanjo.

¶3. (SBU) Despite the verification exercise, Financial Derivatives Company (FDC) CEO Bismarck Rewane said the CBN was unlikely to revoke the licenses of the 25 newly emerged banks to avoid a "scare" in the banking sector. He believed some banks that barely met the naira 25 billion requirement would have trouble competing. Lagos Business School Director Pat Utomi emphasized post-merger integration woes would significantly impact some banks more than others, but agreed with Rewane that revoking more licenses was not the answer. The CBN had no incentive to revoke the licenses of any more banks, he argued.

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4 New Settlement Banks, 10 Total,
But No Impact On Banking Environment

¶4. (SBU) In February 2006, the CBN appointed four new banks as settlement banks including: Access Bank, Diamond Bank, Intercontinental Bank, and IBTC Chartered Bank. They joined United Bank for Africa, Zenith Bank, Guaranty Trust Bank, First Bank, Afribank, and Union Bank, raising the total number of settlement banks to ten. Bank experts do not believe the increased number of settlement banks will create a more efficient clearing house system or change the bank environment. Dozie said Diamond chose to become a settlement bank more for "status" reasons, than any real economic benefit. The larger you were and the closer you were to government, the less likely your bank would be shut down, he

said.

Delay in Depositor Payment

¶5. (SBU) Nigeria Deposit Insurance Corporation (NDIC) Field Examination Deputy Director O.M. Sulaimon said NDIC obtained court orders authorizing them to liquidate four of the 14 failed banks: Trade Bank, Afex Bank, Allstates Trust Bank, and Lead Bank. NDIC compiled depositors' registers for the four banks, but needed to reconcile their records, which would take several weeks. He was optimistic that NDIC would begin disbursement of insured deposits, a maximum of naira 50,000 (USD 385), for the four banks by May. For the other ten banks, NDIC was still struggling to obtain court orders, compile depositors' registers, and reconcile records. The Alliance Bank Group, (composed of seven failed banks: City Express Bank, Eagle Bank, Gulf Bank, Liberty Bank, Metropolitan Bank, Societe Generale Bank, and Triumph Bank) had disputed the revocation of their bank license, making it difficult for NDIC to obtain the necessary court order authorizing NDIC to liquidate the banking group.

Second Phase in Bank Reform-A Scramble to
Manage the Country's Foreign Reserves

¶6. (U) Zenith Bank CEO Jim Ovia initiated a dinner March 18 in honor of CBN Governor Charles Soludo, calling together executives of the 25 newly emerged banks. Soludo announced a "second" phase in bank reform involving further consolidation of banks, but this time on a voluntary basis, several Bank executives in attendance said. David-Borha confirmed First Bank and Ecobank were in merger discussions, and more banks were rumored to be seeking alliances to compete in the post-integration era. First Bank Nigeria Capital Limited Executive Vice-President, Kofo Majekodunmi, said to compete with the top five or six banks, some banks would pursue further merger plans, citing a possible Stanbic and Oceanic

Bank alliance. Oceanic Bank CEO Cecilia Ibru confirmed Oceanic and Stanbic had discussions, but the talks fell through. Ibru said the possibility of a merger still existed, but Oceanic's main goal was finding a partner to reach the CBN's naira 1 billion (USD 7.7 million) requirement to manage Nigeria's foreign reserves. Bauchi State Governor Muazu, Ogun State Governor Daniel, Cross River State Governor Duke, and Anambra State Governor Obi were the only governors invited to the event.

¶7. (U) Ibru said the largest banks in Nigeria were all vying to manage the country's foreign reserves. The "second" phase in bank reform would be a scramble between the largest banks to reach the naira one billion mark. Bank insiders cite Zenith Bank's second initial public offering (IPO) as an attempt by Zenith to reach that mark.

Second Zenith IPO-Politically Motivated?

¶8. (C) Others, however, argued that the money Zenith raised through its second IPO, was intended to help finance the 2007 presidential election and President Obasanjo's third term agenda. Several bank executives confirmed rumors that Zenith Bank's second public offering in less than one year was politically motivated. They said the late Waziri Muhammad, a close personal associate to President Obasanjo, held naira 65 billion (USD 500 million) in a Zenith Bank account on behalf of the President. Muhammad died in the October 22 Bellview crash and about naira 47 billion (USD 362 million), had been moved offshore, affecting the bank's liquidity, one executive said. Kwara State Governor Suraki's Special Assistant Tunde Morakinyo said the Administration wanted the 65 billion returned to help finance Obasanjo's campaign, and that was the major reason behind Zenith's second initial public offering.

EFCC Still Targeting Opponents

¶9. (C) Former Anambra State Governor Ngige's Special Media Assistant Fred Chukwuelobe said the EFCC remained a vehicle for Obasanjo to detract adversaries from opposing a third term. Chukwuelobe said the EFCC, in close coordination with the CBN, was investigating financial corruption charges against the Governors of Abia, Plateau, Delta, and Enugu states, while backing away from President Obasanjo's allies such as Rivers State Governor Peter Odili. According to Chukwuelobe, Delta State Governor Ibori told former Anambra State Governor Ngige in December 2005 that he was being threatened by the Administration to support Obasanjo, or face being targeted by the EFCC. Chukwuelobe said Ibori decided to "cooperate" rather than risk his political future. Chukwuelobe echoed the sentiments of several bank insiders who believe the CBN's black list of major debtors is sent to the EFCC to target President Obasanjo's opponents.

Comment

¶10. (C) As the 2007 elections draw near, bank reform increasingly appears to be an exercise in consolidating power both for President Obasanjo and the banks that support him. Banks closest to the Administration stand to gain the most from CBN policy pronouncements, including access to managing the country's foreign reserves. For the majority of Nigerians, however, access to credit remains difficult and confidence in the banking sector remains low. Integration woes will continue to plague the industry for some time to come. End comment.
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